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ANNUAL
REPORT
1961

Rexall DRUG AND CHEMICAL COMPANY

Rexall

BOARD OF DIRECTORS

JOHN BOWLES	Los Angeles, California
ERNEST R. BREECH	Bloomfield Hills, Michigan
DONALD H. BREWER *Elected Oct. 25, 1961*	Los Angeles, California
JOHN C. CORNELIUS	Minneapolis, Minnesota
JUSTIN DART	Los Angeles, California
PAUL A. DRAPER—*Honorary*	Boston, Massachusetts
ROLAND F. HALLETT	Los Angeles, California
ROBERT L. KING *Elected Nov. 20, 1961*	Los Angeles, California
RALPH M. KNIGHT *Elected Oct. 25, 1961*	Los Angeles, California
F. THATCHER LANE	Litchfield, Connecticut
GEORGE L. MAISON, M.D.	Los Angeles, California
STANLEY M. RUMBOUGH, JR. *Elected Nov. 20, 1961*	New York, New York
ADÉ SCHUMACHER	Greenwich, Connecticut
JAMES E. SHELTON	Los Angeles, California
HOLMES TUTTLE	Los Angeles, California
HAMER WILSON	Orlando, Florida

EXECUTIVE COMMITTEE

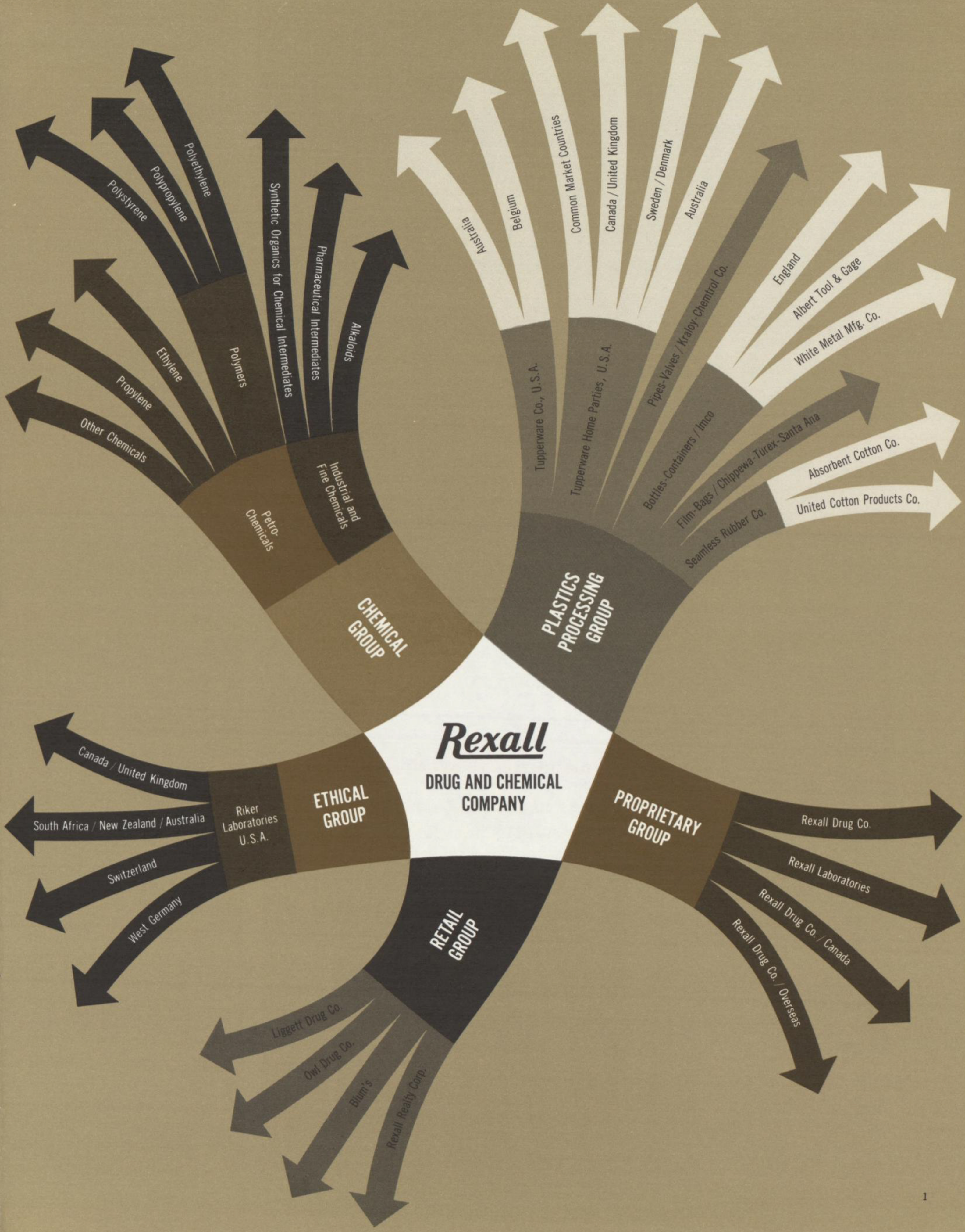
JUSTIN DART, *Chairman*	Los Angeles, California
JAMES E. SHELTON	Los Angeles, California
HOLMES TUTTLE	Los Angeles, California

AUDIT COMMITTEE

JAMES E. SHELTON, *Chairman*	Los Angeles, California
ADÉ SCHUMACHER	Greenwich, Connecticut
HOLMES TUTTLE	Los Angeles, California

OFFICERS

JUSTIN DART	President
JOHN BOWLES	Vice President, Proprietary Group
DONALD H. BREWER	Vice President, Plastics Processing Group
GEORGE J. DALY	Vice President, Accounting
ROLAND F. HALLETT	Vice President and Treasurer
ROBERT L. KING	Vice President, Industrial and Public Relations
RALPH M. KNIGHT	Vice President, Chemical Group
GEORGE L. MAISON, M.D.	Vice President, Ethical Drug Group
HAMER WILSON	Vice President, Tupperware
BERT K. HENRY	Controller
BENJAMIN H. DORMAN	Secretary and General Counsel


Rexall
DRUG AND CHEMICAL COMPANY
CHEMICAL GROUP
Petro-Chemicals
Other Chemicals
Propylene
Ethylene
Polymers
Polystyrene
Polypropylene
Polyethylene
Industrial and Fine Chemicals
Synthetic Organics for Chemical Intermediates
Pharmaceutical Intermediates
Alkaloids
PLASTICS PROCESSING GROUP
Tupperware Co., U.S.A.
Austria
Belgium
Common Market Countries
Tupperware Home Parties, U.S.A.
Canada / United Kingdom
Sweden / Denmark
Australia
Pipes-Valves / Kraloy-Chemtrol Co.
England
Bottles-Containers / Imco
Albert Tool & Gage
White Metal Mfg. Co.
Film-Bags / Chippewa-Turex-Santa Ana
Seamless Rubber Co.
Absorbent Cotton Co.
United Cotton Products Co.
ETHICAL GROUP
Riker Laboratories U.S.A.
Canada / United Kingdom
South Africa / New Zealand / Australia
Switzerland
West Germany
PROPRIETARY GROUP
Rexall Drug Co.
Rexall Laboratories
Rexall Drug Co. / Canada
Rexall Drug Co. / Overseas
RETAIL GROUP
Liggett Drug Co.
Owl Drug Co.
Blum's
Rexall Realty Corp.

The Year in Brief

	1961	1960
OPERATIONS		
Net Sales	$260,879,928	$242,557,169
Net Earnings	$ 9,581,444	$9,359,694
Per Share	$ 2.20	$ 2.26*
NUMBER OF SHARES		
Average during year	4,364,714	4,134,129*
Outstanding at year end	4,390,276	4,227,529*
AT YEAR END		
Current Assets	$113,158,381	$103,221,347
Less: Current Liabilities	39,680,495	31,580,264
Working Capital	$ 73,477,886	$ 71,641,083
Long Term Debt	$ 54,180,228	$ 38,697,794
Stockholders' Equity	$ 97,410,468	$ 86,564,110
Per Share	$22.19	$20.48*
DIVIDENDS–Per Share		
Cash	$ 0.50	$ 0.50
Stock	3%	3%

**Adjusted for three percent stock dividend issued in March, 1961.*

The President's Letter to the Stockholders

Sales and earnings last year were the best in the Company's history.

Net sales, including those of consolidated subsidiaries, reached $260,879,928 in 1961, a gain of $18,322,759, or 7.6 per cent over the previous year.

Net earnings of $9,581,444 were up slightly from the $9,359,694 shown in 1960. On the average number of shares outstanding, earnings were equivalent to $2.20 a share as against an adjusted $2.26 per share in 1960. The 3 per cent stock dividend paid during the year, and also certain acquisitions, increased the average number of shares outstanding during the year to 4,364,714. Earnings in 1961 include the profits of White Metal Manufacturing Company for the calendar year 1961.

The ethylene plant engineered by your Company's partner, El Paso Natural Gas Products Company, came in under budgeted cost. It is producing ethylene of extraordinarily high purity. The high pressure polyethylene plant designed by your Chemical Division gives very encouraging indications of beating its own timetable for meeting quality requirements. Sales for the first quarter of 1962 are substantially ahead of estimates.

The Paul Kayser Chemical Research Center in Paramus, New Jersey, was dedicated last November. We now have pilot plant operations for polypropylene and linear polyethylene and expect to announce shortly our plans for commercial production. During 1961 heavy expansion and development expenses, both foreign and domestic, were absorbed in the operating results of the Plastic and Chemical Divisions.

Riker Laboratories, your Company's Ethical Division, continued to expand its sales volume and profit during 1961. Riker acquired companies in both Germany and Argentina last year, and its research and processing laboratories were expanded substantially both at home and abroad.

Tupperware Company, your Plastic Housewares Division, completed a plant near Brussels, Belgium, from where it is serving the European Common Market Community and the United Kingdom. Tupperware is currently building another plant in Australia.

IMCO (plastic bottles) built three new plants last year and enlarged two. Two new plants are scheduled for this year including one in England. Three plants in the United States will be further enlarged.

The Rexall Division continued to serve effectively its 12,000 dealers. The One Cent Sale last November was the biggest ever for Rexall dealers.

Profits in your Retail Division improved in 1961 over the previous year.

Heavy start-up expenses in the Plastic Processing Division will continue during the current year. Operating costs of the new ethylene and polyethylene complex at Odessa, Texas, will be particularly heavy during the first half of 1962. The fine progress in meeting standards of quality achieved by your Chemical Division suggests that the second half should be very much better than the first. Our current forecast indicates that the Odessa plant should be operating profitably by 1963 despite lower prices for polyethylene resin.

Because so many of our extraordinary expansion and development costs will have been absorbed in 1961 and 1962, we believe that 1963 will begin to bear the fruits of the broadly expanded facilities of your Company.

Respectfully submitted
for the Board of Directors,

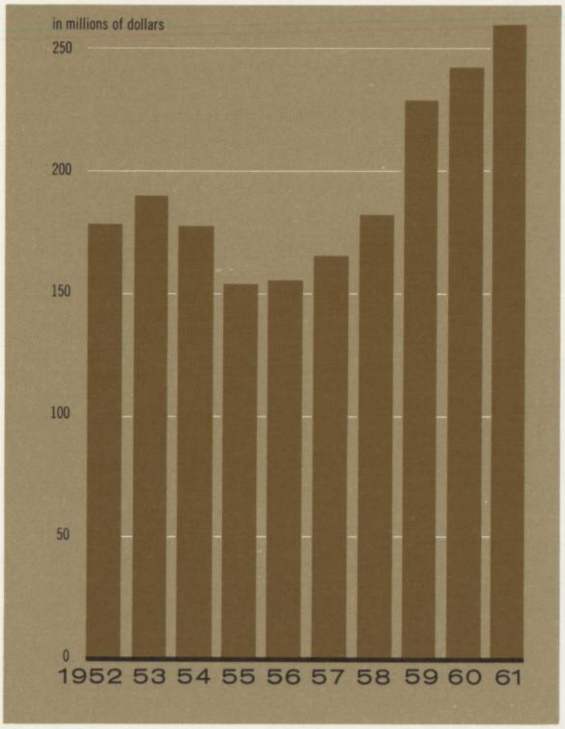
Justin Dart

March 20, 1962

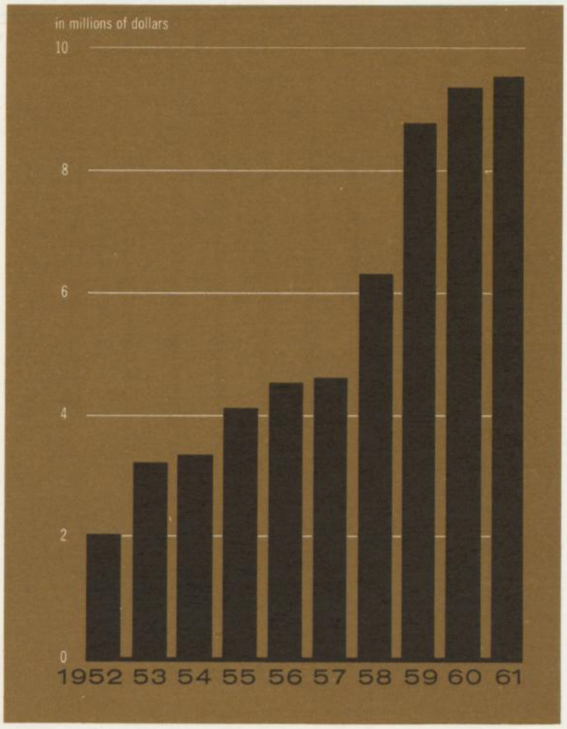
JUSTIN DART, *President*

Rexall Ten Year Growth Record

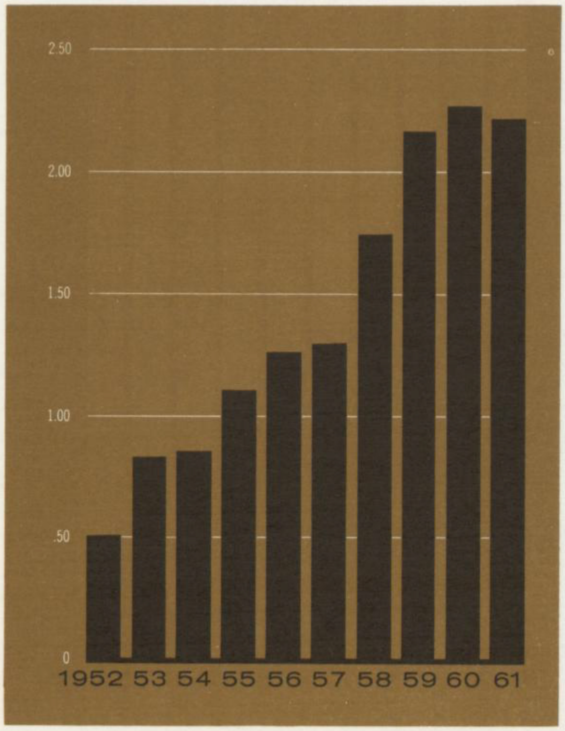
NET SALES



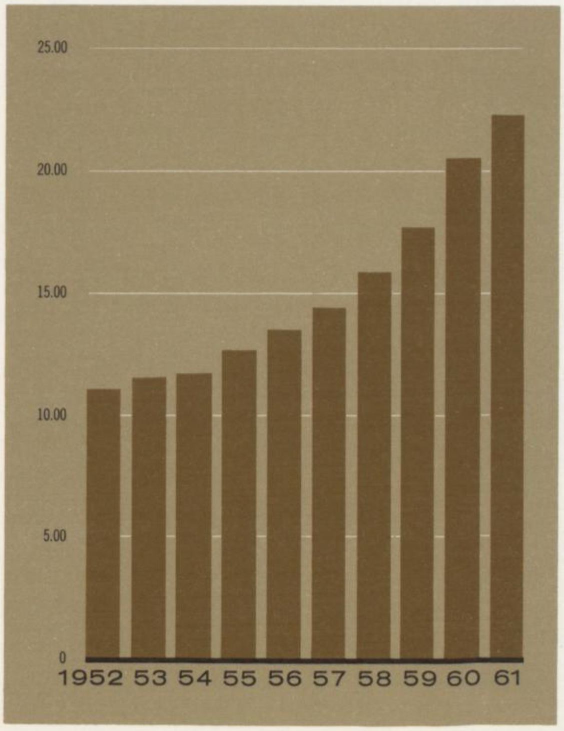
NET EARNINGS



EARNINGS PER SHARE



BOOK VALUE PER SHARE



Per share figures adjusted for 3% stock dividends issued in 1959, 1960 and 1961

Review of Operations / Financial

Net sales for the year 1961 were $260,879,928, an increase of 7.6 percent above sales of $242,557,169 in 1960.

Net earnings of the Company and its consolidated subsidiaries in 1961 were $9,581,444 compared with reported net earnings of $9,359,694 for 1960. Net earnings for 1961 reflect the annual operating results of White Metal Manufacturing Company acquired the first of last November.

Per share, net earnings for 1961 were $2.20 on 4,364,714 shares, the average number outstanding during the year. This compares with $2.26 per share for 1960 after adjustment for the 3 percent stock dividend issued in 1961.

Operating results for 1961 include $1,163,677 realized on the sale of investments and property, compared with $1,448,305 realized in 1960. It is anticipated that operating results for 1962, 1963 and 1964 will include income from sale of investments similar to that received in 1961.

During the year, expenditures for new facilities amounted to $33,494,427, approximately three times the amount spent for this purpose in 1960, bringing net investment in all plants and facilities to $60,759,470, an increase of 71.5 percent.

To assist in financing plants and facilities, an additional $15,000,000 was borrowed under the long term loan commitment, leaving a balance of $10,000,000 still available for future requirements. The Company repaid $1,242,732 on previous indebtedness.Long term indebtedness at December 31, 1961 was $54,180,228 compared with $38,697,794 at the end of 1960.

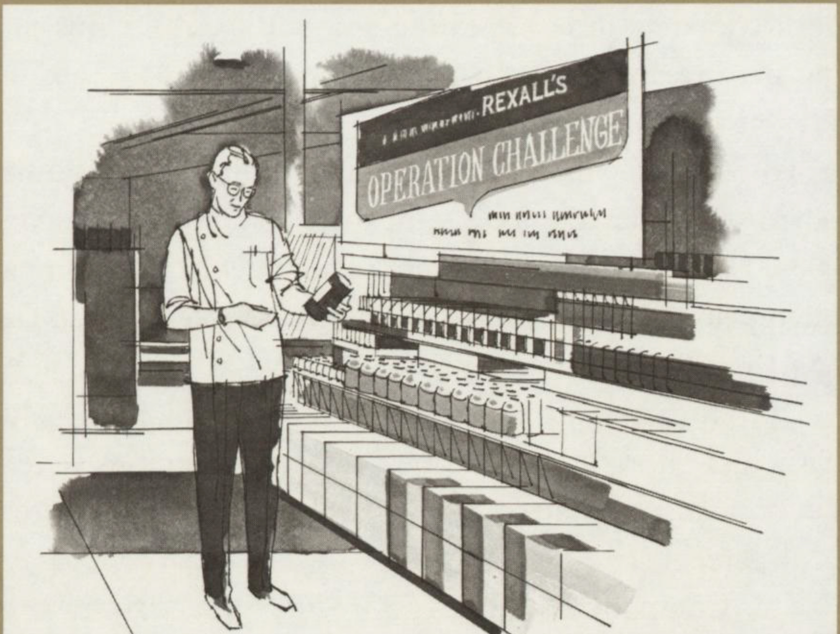
Current assets at year end were $113,158,381, including $23,434,268 in cash and short term securities. Current liabilities were $39,680,495, leaving net working capital of $73,477,886. Total assets increased $37,220,594, or 23.4 percent, to $195,982,516.

The Company continued its regular quarterly cash dividends totaling 50 cents per share during 1961. The Board of Directors also voted a stock dividend of 3 percent payable March 9, 1962 to stockholders of record on February 2, 1962, continuing the policy adopted in 1958.

Stockholders' equity amounted to $97,410,468 at December 31, 1961, an increase of $10,846,358, or 12.5 percent, over that date in 1960.

Proprietary Group

Rexall
SUPER
PLENAMINS
MULTI-VITAMINS
WITH MINERALS


REXALL'S
OPERATION CHALLENGE

In mid-year, Rexall Drug Company illustrated its creative approach to marketing with "Operation Challenge," a program designed to help stimulate the nation's economy through proven techniques of salesmanship.

Proprietary Group

The Proprietary Group is made up of Rexall companies in the United States, Canada, England and South Africa which manufacture and market drug store products under the Rexall brand name and under other brand names which are owned by Rexall.

REXALL DRUG COMPANY

Distributes to 10,500 Dealers

The largest unit in this group is the Rexall Drug Company. At its Laboratories in St. Louis, Rexall Drug Company manufactures more than 2,500 pharmaceuticals, toiletries and proprietaries. A proprietary is a drug or cosmetic that is advertised to the public. These products are distributed through 10 warehouses to slightly more than 10,500 franchised Rexall dealers in the United States—the familiar orange and blue drug stores that are in every inhabited county of the nation.

Rexall Drug Company also offers its dealers sundries and other drug store merchandise bought to specification from other subsidiaries of the parent company and from outside suppliers.

Promotes Sales Through "Operation Challenge"

During 1961, Rexall Drug Company promoted the sale of its products in Rexall drug stores through a plan called "Operation Challenge." Under the plan the Company shipped Rexall merchandise to Rexall dealers freight prepaid and under favorable terms. It provided for mass display of these products, salespeople incentives, dealer incentives, and a national advertising campaign—all designed to sell large amounts of Rexall merchandise at full price through proven techniques of salesmanship. "Operation Challenge" began in July and culminated in November with a 10-day One Cent Sale. The plan proved highly successful for your Company and the Rexall dealers.

Rexall Drug Company introduced several new products during the year, among them Klenzo Oral Spray, a concentrated antibacterial-antiseptic aerosol spray for the mouth; One Daily Multiple Vitamins; and Timed-Action Antihistamine Capsules. The latter, a product for relief of cold symptoms, releases medication at timed intervals after being swallowed.

Begins Packaging in Plastic Containers

The Company also began packaging many of its products in plastic containers. These containers are being manufactured by the IMCO Container Company, a Rexall Drug and Chemical Company subsidiary. Some of the products introduced in plastic in 1961 were milk of magnesia, rubbing alcohol, cosmetic creams, vitamins and aspirin.

To accomplish the change in packaging, the staff at the Company's St. Louis Laboratories successfully converted equipment intended for filling glass containers to filling plastic containers.

During 1961, the St. Louis Laboratories also improved the efficiency of its accounting and stock control procedures by installing a data processing system that eliminated many manual operations.

Rexall Drug Company's program of extending franchises to selected retailers continued in 1961. The largest new franchise signed during the year was by Crown Drug Company, 37-store chain with headquarters in Kansas City, Missouri.

1,500 Rexall Drug Stores in Canada

In Canada, Rexall Drug Company Limited sells its products through the franchise system to approximately 1,500 independently owned Rexall drug stores. It has manufacturing facilities, a warehouse and its main office at Cooksville, Ontario. Warehouses are also at Winnipeg, Manitoba and Vancouver, British Columbia.

REXALL DRUG COMPANY, OVERSEAS

In the Union of South Africa, Rexall Drug Company S.A. (Pty.) Limited manufactures and sells Rexall products to over 700 franchised drug stores.

During the year, it added substantial new working and production space to its plant and several thousand square feet of warehouse space.

Besides the main manufacturing and headquarters facility at Port Elizabeth, the Company operates a branch plant at Johannesburg which manufactures several hundred Rexall products.

Increases Shipments Overseas

During 1961, Rexall's manufacturing and distributing company at Loughborough, England, increased its distribution of proprietaries and toiletries under Rexall brand names to pharmacies in the United Kingdom. It also increased its export activities and is now shipping to more than 50 overseas territories.

The Company will begin selling cosmetics through selected outlets during 1962. It also plans to expand distribution in European Common Market countries.

Retail Group

Two chains of retail drug stores, a chain of coffee shops, a candy and restaurant chain and a drug store financing company make up the Retail Group of the Rexall Drug and Chemical Company.

LIGGETT DRUG COMPANY

Liggett Drug Company operates a chain of company-owned drug stores in New England, New York City and in the Southern states. It also franchises independent dealers to operate as Liggett stores in those areas, giving them an opportunity to benefit from Liggett's marketing and advertising techniques.

Operates on East Coast

At year's end, there were 134 company-owned units in operation, representing a net increase of six outlets during the year. There were 246 franchised agency stores representing an increase of 14 stores during the year.

During 1961, Liggett established a number of units operated as toiletry and greeting card concessions in conventional department stores. Further expansion of this successful development is anticipated in 1962.

Ten new shopping center stores are expected to be opened in 1962.

THE OWL DRUG COMPANY

On the West Coast, the Owl Drug Company operates a chain of 29 company-owned drug stores and 11 Gales Coffee Shops. Of the drug stores, six at year's end were conventional and 23 were Drug King outlets of the highly promotional direct shipment, self-service type. The latter receive merchandise on direct shipment from suppliers, saving warehouse costs.

Liggett Drug Company converted two of its stores to the Drug King identification during 1961. It plans to expand this conversion in 1962.

During the year, Owl closed one store, sold one, and sold the assets of the prepared food commissary and the District Ice Cream Company. A modest expansion of Drug King stores and Gales Coffee Shops is anticipated in 1962.

BLUM'S

Blum's is the third retail subsidiary owned by the Company. It operates restaurant-retail stores which are combined operations offering customers fine foods, bakery products, candy and ice cream. During 1961, this part of Blum's was expanded with the addition of a new unit in San Jose, California, raising to 11 the total number of retail outlets.

Operates Restaurant-Retail Stores

Blum's also manufactures candies in San Francisco which are sold through selected department stores in major cities throughout the United States. Blum's bakeries, one in San Francisco and one in Beverly Hills, California, produce fine pastries for their stores in those areas.

REXALL REALTY CORPORATION

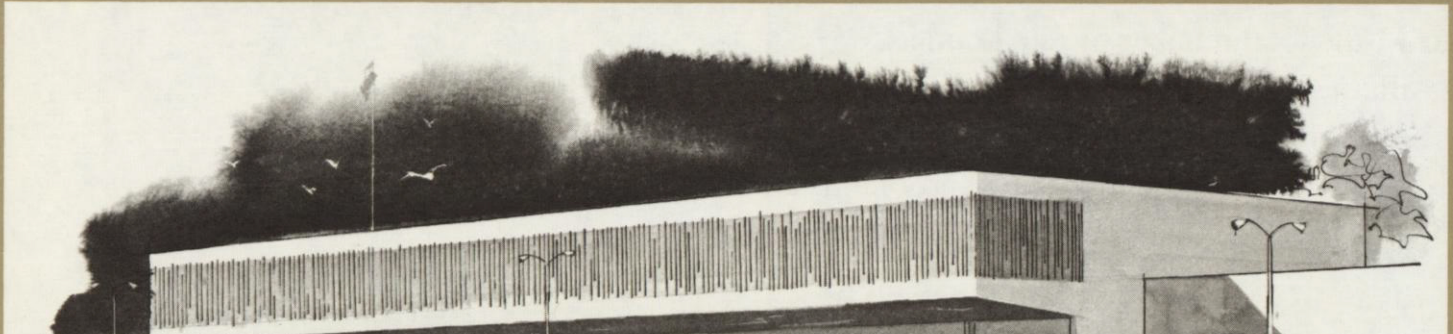
The Rexall Realty plan gives the individual pharmacist the financial backing and bargaining position he needs to qualify under favorable terms as a tenant in desirable shopping center locations.

Under the plan, store design, fixture planning, merchandising and operation are supervised by Rexall Realty. This assures efficient operation, at the same time providing a modern Rexall franchised outlet in a growing area. The pharmacist can achieve full ownership in a relatively short period of time, usually by applying part of store earnings to his equity.

Provides New Rexall Outlets in Growing Areas

At the end of 1961, there were 91 stores operating under the Rexall Realty financing plan, an increase of 12 stores over 1960.

Ethical Drug Group



From its modern research, manufacturing and administration center in suburban Los Angeles, Riker Laboratories Inc. directs worldwide distribution of its ethical drug products. The Company expanded both at home and abroad during 1961.

Ethical Drug Group

Markets Prescription Drugs in Many Countries

Riker Laboratories Inc., with headquarters at Los Angeles, is well known in the medical profession for the ethical drug specialities it develops and markets in the United States and abroad. Specialities of Riker are manufactured in England, Canada, Australia and many other countries. Distributing and marketing companies serve the medical profession of the United Kingdom, Switzerland and New Zealand.

Recently Riker acquired a majority ownership in the West German pharmaceutical firm of Dr. Kettelhack, GmbH. Under the name Kettelhack Riker Pharma GmbH, it will market Riker products in West Germany. Riker also acquired a company in Buenos Aires.

Riker confines its research and marketing to drugs not advertised to the public. Some of its better known products are Norflex®, a drug for muscular spasms; Deaner®, a nontoxic antidepressant; Veriloid® and Rauwiloid® for the management of hypertension; and the Medihaler® group of drugs for relief of bronchial asthma and vascular headaches. Medihaler® is a patented aerosol device for delivering precise metered dosages of drugs by means of a fine oral spray.

New products introduced during 1961 included Estomul™ for treatment of peptic ulcer and Ulominic® and Ulogesic® for symptoms associated with the common cold, including acute cough. Expansion of research was largely in the areas of drugs for treating cardiovascular and central nervous system disorders.

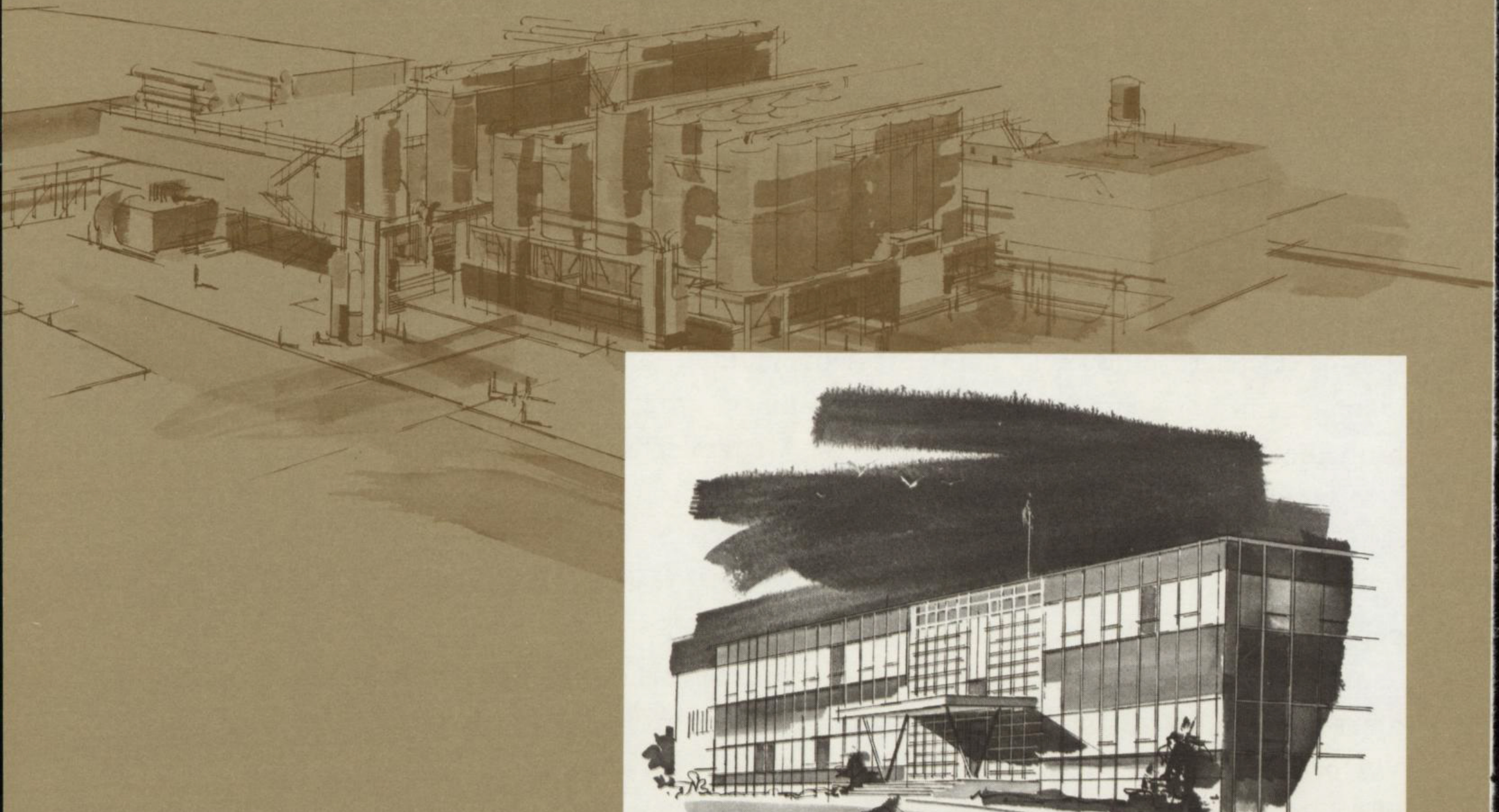
Facilities Expanded at Home and Abroad

During 1961, Riker acquired additional land adjacent to its Los Angeles site, bringing the total to 35 acres. It expanded facilities for chemical processing, pilot plant, warehousing, shipping, chemical and biological research, and began construction of a new administration building.

Overseas, Riker made excellent progress in New Zealand in its first full year of operation and showed continued growth in Australia.

In England, demand for Riker products has grown enough to call for a substantial addition to the manufacturing facilities there. Plans have been approved and the addition is expected to be occupied in mid-1962.

Chemical Group



A new research and sales development center in Paramus, New Jersey, and a polyethylene plant at Odessa, Texas, were both completed during the year. Together, they are making Rexall a growing source of polyolefins in world markets.

Chemical Group

The Chemical Group produces and sells basic chemical resins to manufacturers who use them to make plastic products. It also manufactures and sells fine and industrial chemicals.

POLYOLEFINS

Odessa Plant Begins Operations

At the turn of the year, about 15 months after ground was broken at Odessa, Texas, the new Rexall petrochemical facility there began producing conventional high pressure polyethylene. Start-up was ahead of schedule.

This new giant has the capacity to produce in excess of 120,000,000 pounds of polyolefins annually. It was constructed as part of the joint operating agreement entered into with El Paso Natural Gas Products Company in 1960 to produce petrochemicals.

Raw Material Plant Completed

Ethylene raw material is being supplied by another new plant operated by El Paso under the joint agreement. Initial operation of both the ethylene plant and the polyethylene plant have been highly satisfactory.

Polyethylene is one of the familiar plastics used for housewares, containers, toys, squeeze bottles, wrapping for food products and other items.

PILOT PLANTS

To help develop applications and new uses for various petrochemicals, Rexall and El Paso also built a research and development facility on a 20-acre site in Paramus, New Jersey. Construction began in August, 1960.

Paramus Pilot Plants Start in April

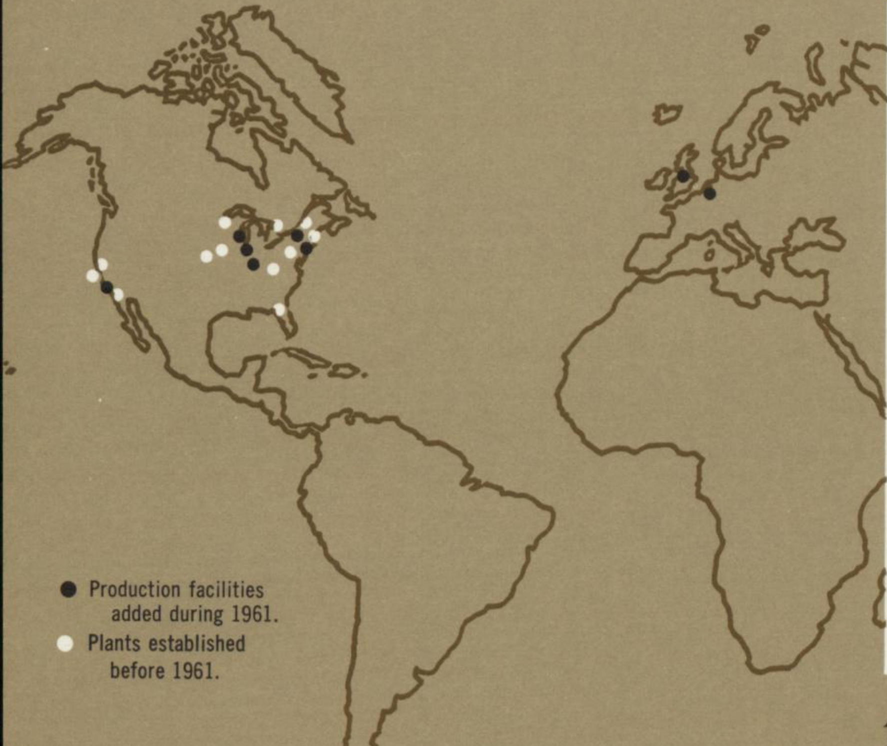
The engineering and development building, which houses a high pressure polyethylene pilot plant, a low pressure polyolefins pilot plant and a polystryene pilot plant was occupied in April, 1961. The pilot plants were started up between that date and September.

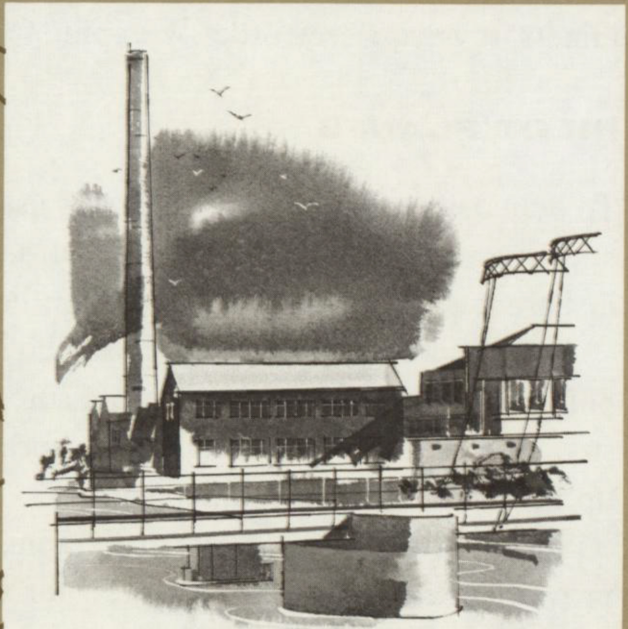
Since start-up, pilot plants at Paramus have been operating continuously, providing fundamental information for the Odessa facility and yielding valuable findings that will affect the design of new plant facilities.

RESEARCH AND DEVELOPMENT

The main research and development building was occupied in July, 1961. It houses laboratories for basic research, product research and development and

Plastics Processing Group


● Production facilities added during 1961.
○ Plants established before 1961.



Among new facilities added to Rexall's plastics processing companies during the year was this Tupperware Company plant at Erembodegem, Belgium. Production here is helping expand sales of Tupperware in Europe.

for sales service. National sales offices of the Chemical Company are located there. The center was dedicated in November as the Paul Kayser Research and Sales Development Laboratories, named for Mr. Paul Kayser, chairman and chief executive officer of El Paso Natural Gas Company.

POLYSTYRENE

Polystyrene Marketed Nationally

During 1961, Rexall Chemical's marketing organization was expanded to sell on a nationwide basis polystyrene manufactured by Rexall at Holyoke, Massachusetts, Santa Ana, California, and polyolefins of other selected producers. By year's end, the organization was thereby well prepared to handle the polyethylene production just coming out of the new plant in Odessa, Texas.

PHARMACEUTICAL AND INDUSTRIAL CHEMICALS

In the Chemical Group are two established plants that produce a variety of fine chemicals for industry. These are located at Kearny, New Jersey, in the United States and at Welwyn Garden City, Hertfordshire, England.

Synthetic Organics Plant Built in England

At Welwyn, a new synthetic organics plant was added to existing facilities and came into operation during 1961. Its products include adrenaline and adrenaline derivatives, bismuth salts and such alkaloids as brucine, caffeine, strychnine and quinine.

The Kearny, New Jersey, facility is an important source of various salicylates (the principal ingredient in aspirin), methyl salicylate (oil of wintergreen), and various choline salts. During 1961, the Kearny plant made improvements in products, operating efficiency, costs and production.

Plastics Processing Group

Eleven operating companies make up the Plastics Processing Group. Together they are participating in the global expansion of plastics, helping adapt these materials to uses in industry, agriculture and the home.

THE TUPPERWARE COMPANY

Tupperware Co. is the world's largest manufacturer of plastic housewares.

Tupperware® is used primarily for food storage and serving containers and is made of polyethylene, polypropylene and polystyrene. A Tupperware® patented seal manufactured under close tolerances makes Tupperware® air and water tight, preserving the freshness and flavor of foods for long periods.

Purchases Plant in Belgium

In 1961, Tupperware Company built a 100,000 square foot addition to its headquarters and principal manufacturing plant at Blackstone, Massachusetts. It also bought a 170,000 square foot building near Brussels, Belgium, and remodeled it to produce Tupperware.®

At the end of the year, property was purchased in Australia on which a factory will be constructed to produce Tupperware® for the Australian market.

Marketing of Tupperware® is done exclusively by the home party selling method through a network of independent distributors in the United States and abroad. Both the product and the selling method are gaining rapid acceptance through dealerships in the British Isles, Denmark, Sweden, West Germany, Netherlands, Belgium, France, Italy and Australia. Further expansion, especially in the Common Market countries, is continuing.

IMCO CONTAINER COMPANY

IMCO Adds Three New Plants

IMCO Container Company, manufacturer of plastic containers and closures for packaging myriads of consumer products, doubled its rate of sales in 1961. It added three new plants in the United States: at Jeffersonville, Indiana; Cicero, Illinois; and Los Angeles, California. It made substantial additions to its plants in Kansas City, Missouri, and Belvidere, New Jersey. It began overseas operation in England.

Headquarters are at Kansas City, Missouri. There are other IMCO plants at Harrisonburg, Virginia; Excelsior Springs, Missouri; Goleta, California; and Cooksville, Ontario, Canada. Eight are bottle manufacturing facilities; one central plant manufactures bottle parts and caps.

Plastic bottles and containers are used for toiletries, cosmetics, foods, medi-

cines, household products and an increasing list of goods. Significantly, during 1961 detergents and laundry bleaches were packaged in IMCO containers.

Research Program Continues

IMCO continued its research program in 1961, developing new uses for plastic containers and new types of containers. Machinery for producing the results of this research is created in Kansas City and is implemented by the Albert Tool and Gage Company, subsidiary at IMCO's headquarters plant, and by Sarex of Saint Sulpice, Switzerland.

Buys Facility in England

In an expansion move overseas, IMCO purchased a manufacturing plant in Golborne, England, in 1961 and is remodeling it to supply IMCO bottles and containers to customers in England. Production equipment is now being built.

WHITE METAL MANUFACTURING COMPANY

The Plastics Processing Division added an allied group of packaging materials to its plastics group in 1961 through the acquisition in early November of the White Metal Manufacturing Company. White Metal is one of the United States' leading manufacturers of collapsible metal tubes. It is an important supplier to many of the principal manufacturers of tooth paste, shaving cream, pharmaceuticals, cosmetics and other household and industrial products.

Gives Sales Force Line in Both Plastic and Metal

White Metal has plants in Hoboken and Hawthorne, New Jersey, and Indianapolis, Indiana. Their output is sold by White Metal and IMCO Container Company salesmen, who serve the same market, thus giving this sales force a versatile container line in both plastic and metal.

In research and development, White Metal will contribute its talent and experience to creating new containers, both in metal and plastic, new decoration methods, and to improving tube packaging of Rexall pharmaceutical, medicine and cosmetic products.

PLASTIC FILM PRODUCERS

Film Made for Variety of Uses

Miles of plastic film, like endless balloons, rise cooling on columns of air two stories high at Rexall plants in the eastern, midwestern and western United States. This film has many uses, much of it adding visibility, sparkle, cleanliness and convenience to clothing, toys, foods and a variety of other packaged goods.

Other Rexall film is sold for industrial and agricultural use. In construction, an increasing amount of Rexall film is used by builders to protect materials and work in progress from the weather.

Rexall film plants are Turex Plastics at Nasonville, Rhode Island; Chippewa Plastics at Chippewa Falls, Wisconsin, and Salinas, California; and Santa Ana Film, Santa Ana, California.

KRALOY/CHEMTROL COMPANY

Adds Electrical Boxes and Accessories

The Kraloy/Chemtrol Company, Santa Ana, California, manufactures and sells plastic pipe, pumps, valves, fittings and electrical conduit. Kraloy pipe is made of polyvinyl chloride and of polyethylene and is used in such places as breweries, chemical plants, oil fields and for irrigation.

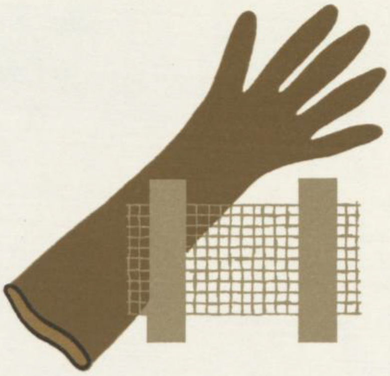
Kraloy electrical conduit has Underwriters' Laboratories approval for use under ground and encased in concrete. In anticipation of approval for above ground use, the Company introduced a line of electrical boxes and accessories during the year.

In August, the Company opened a new warehouse in Chicago. Other warehousing facilities are in Philadelphia, Dallas, and at the Santa Ana headquarters.

THE SEAMLESS RUBBER COMPANY

Automates Glove Manufacturing Facilities

The Seamless Rubber Company, New Haven, Connecticut, manufactures and sells drug store rubber sundry items, rubber and plastic hospital supplies, and sporting goods. During 1961, it marketed several new products, among them a new spray lubricant as an aid for putting on surgeons' gloves and a new



germicidal deodorant spray called "Count-Down," which is metered into the air of operating rooms.

Seamless is one of the country's largest manufacturers of surgeons' gloves. During the year it automated this section of its manufacturing facilities, lowering costs and improving the product.

In sporting goods, the Company added accessories to its growing line of skin diving equipment.

Absorbent Cotton Company

Two companies operate under Seamless direction. One is Absorbent Cotton Company, which manufactures a complete line of cotton, gauze and bandage products for the drug store and hospital trades. The hospital line is sold by the Seamless sales force; the drug store line is sold through the Rexall Drug Company to Rexall franchised drug stores.

United Cotton Products Company

The other company allied with Seamless is United Cotton Products Company, manufacturer of a group of specialized patented abrasive products for industrial use. In 1961, it completed its first year in a new, larger plant occupied to produce new types of abrasive wheels, discs and belts developed by the Company through continuing research.

REXALL OVERSEAS INC.

Increasing opportunities for all of the Rexall groups to market their products in Europe led to the formation in February, 1961, of Rexall Overseas Inc. in Zug, Switzerland. Business offices are also located in Brussels, Belgium, headquarters for the European Common Market.

The European Economic Community, known popularly as the Common Market, is presently made up of Belgium, Luxembourg, France, Italy, Netherlands and West Germany.

Provides Staff Services

Rexall Overseas Inc. provides staff services in Europe for all of the Rexall groups. It is expected to play a key role during 1962 in Rexall's expansion into the Common Market countries.

TRANSFER AGENTS

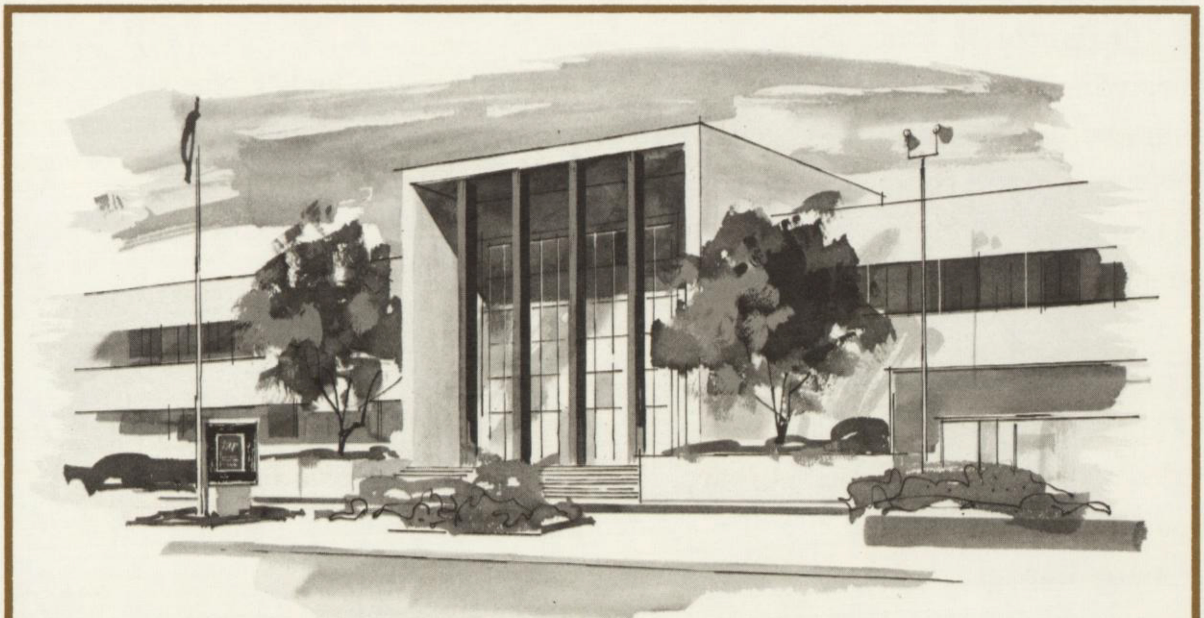
Morgan Guaranty Trust Company of New York, New York
State Street Bank and Trust Company, Boston
Bank of America National Trust & Savings Association, Los Angeles

REGISTRARS

The Chase Manhattan Bank, New York
The National Shawmut Bank of Boston, Boston
United California Bank, Los Angeles

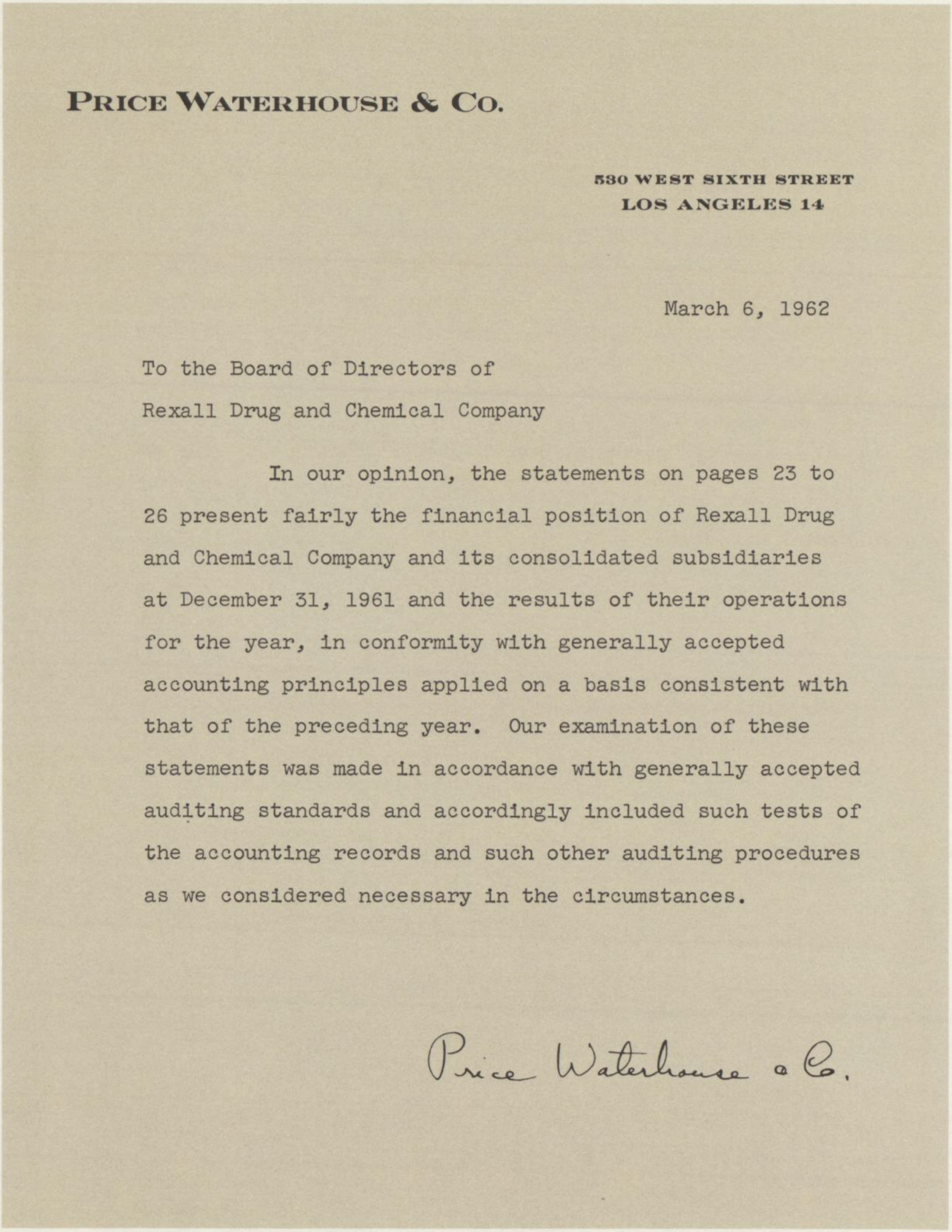
INDEPENDENT AUDITORS

Price Waterhouse & Co.



HEADQUARTERS Rexall Square, 8480 Beverly Blvd., Los Angeles 54, California

Independent Auditors Report



PRICE WATERHOUSE & CO.

530 WEST SIXTH STREET
LOS ANGELES 14

March 6, 1962

To the Board of Directors of
Rexall Drug and Chemical Company

In our opinion, the statements on pages 23 to 26 present fairly the financial position of Rexall Drug and Chemical Company and its consolidated subsidiaries at December 31, 1961 and the results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

Statement of Earnings and Retained Earnings

	1961	1960
INCOME		
Sales, less returns, allowances and discounts	**$260,879,928**	$242,557,169
Gain on sales of investments and properties	**1,163,677**	1,448,305
Other income	**623,331**	646,832
	262,666,936	244,652,306
DEDUCTIONS		
Cost of goods sold	**159,953,322**	148,426,624
Selling, distribution, promotional and administrative expenses	**77,729,358**	72,863,897
Depreciation	**4,472,705**	3,799,823
Interest on indebtedness	**1,880,107**	1,802,268
	244,035,492	226,892,612
Earnings before taxes on income	**18,631,444**	17,759,694
Provision for United States and foreign taxes on income	**9,050,000**	8,400,000
NET EARNINGS FOR THE YEAR	**9,581,444**	9,359,694
Retained earnings at beginning of year:		
Rexall Drug and Chemical Company and its consolidated subsidiaries	**47,786,617**	45,690,816
White Metal Manufacturing Company—acquired in 1961, as adjusted	**1,467,967**	
	58,836,028	55,050,510
Less:		
Cash dividends, 50¢ per share	**2,130,059**	2,002,185
Stock dividends, 3%, 123,197 shares at $37.00 per share paid in March, 1961 and 115,010 shares at $45.75 per share paid in March 1960	**4,558,289**	5,261,708
	6,688,348	7,263,893
Retained earnings at close of year	**$ 52,147,680**	$ 47,786,617

See accompanying notes to financial statements.

Statement of Capital in Excess of Par Value

	1961	1960
At beginning of year	**$ 28,740,831**	$ 17,008,952
Excess of fair value over par value of capital stock issued as stock dividends, 123,197 shares in 1961 and 115,010 shares in 1960	**4,250,297**	4,974,183
Excess of fair value over par value or cost of 12,875 shares in 1961 and 146,200 shares in 1960 of capital stock exchanged for capital stock or net assets of companies acquired	**660,054**	6,644,359
Amount arising in pooling of White Metal Manufacturing Company	**260,550**	
Other credits, principally the excess of option prices over par value of stock options exercised	**413,452**	113,337
At close of year	**$ 34,325,184**	$ 28,740,831

See accompanying notes to financial statements.

Statistical Summary

in thousands of dollars

FINANCIAL OPERATIONS	**1961**	1960	1959	1958	1957	1956
Net sales	**$ 260,880**	$ 242,557	$ 227,016	$ 182,371	$ 167,567	$ 155,633
Earnings before income taxes	**18,631**	17,760	17,153	11,605	9,214	9,074
United States and foreign income taxes	**9,050**	8,400	8,400	5,300	4,600	4,600
Net earnings	**$ 9,581**	$ 9,360	$ 8,753	$ 6,305	$ 4,614	$ 4,474
Earnings per share of capital stock	**$ 2.20**	$ 2.26	$ 2.17	$ 1.75	$ 1.29	$ 1.22

Earnings per share is based upon the average number of shares outstanding during each year adjusted retroactively for three percent stock dividends issued in March 1959, 1960 and 1961.

FINANCIAL POSITION	**1961**	1960	1959	1958	1957	1956
Cash and short term securities	**$ 23,434**	$ 24,307	$ 16,168	$ 20,003	$ 14,431	$ 14,533
Accounts receivable	**35,959**	29,572	25,215	20,054	17,726	16,722
Inventories	**52,821**	48,620	48,737	43,870	40,119	35,436
Prepaid expenses	**944**	722	593	391	377	349
Current assets	**113,158**	103,221	90,713	84,318	72,653	67,040
Less, current liabilities	**39,680**	31,580	33,243	29,172	22,178	20,840
Working capital	**73,478**	71,641	57,470	55,146	50,475	46,200
Property, machinery and equipment (net)	**60,759**	35,469	33,081	26,015	20,162	18,207
Investments, advances, deferred charges, etc.	**9,889**	7,913	5,834	4,913	4,268	5,721
Intangibles	**12,175**	12,159	6,237	4,489		
Less:						
Real estate and equipment obligations	**3,455**	1,847	1,954	2,058	978	811
Other long term indebtedness	**50,725**	36,851	27,977	29,103	23,376	20,622
Deferred taxes on income	**3,250**	950	450			
Minority interest in consolidated subsidiaries	**1,461**	970	192			
Stockholders' equity	**$ 97,410**	$ 86,564	$ 72,049	$ 59,402	$ 50,551	$ 48,695
Stockholders' equity, per share	**$ 22.19**	$ 20.48	$ 17.72	$ 15.74	$ 14.54	$ 13.46
Number of shares of stock outstanding	**4,390,276**	4,227,529	4,066,047	3,774,770	3,476,700	3,617,752
Number of stockholders	**21,079**	20,287	19,151	16,911	15,852	15,865

The number of shares of stock outstanding and the stockholders' equity per share for 1960 and prior years have been adjusted retroactively for three percent stock dividends issued in March 1959, 1960 and 1961.

REXALL DRUG AND CHEMICAL COMPANY

Statement of Financial Position

ASSETS

			1961	1960
CURRENT ASSETS				
Cash			$ 21,880,114	$ 22,548,148
Short term securities at cost and redemption amount			1,554,154	1,759,181
			23,434,268	24,307,329
Accounts and notes receivable, less reserves of $1,127,173 in 1961 and $1,072,414 in 1960				
Trade, including subsidiaries not consolidated			30,970,133	25,084,912
Others			4,988,980	4,486,905
Inventories, at cost or market whichever lower	1961	1960		
Raw materials and supplies	$ 9,970,871	$ 7,961,337		
Work in process	3,043,103	3,183,371		
Finished merchandise	39,806,826	37,475,595		
			52,820,800	48,620,303
Prepaid expenses			944,200	721,898
Total current assets			113,158,381	103,221,347
INVESTMENTS, ADVANCES AND NONCURRENT RECEIVABLES				
Investments in and advances to United States subsidiaries not consolidated (Rexall equity in net assets $3,061,000 in 1961 and $2,669,000 in 1960)			2,740,413	2,525,451
Due from sale of retail stores and other properties			1,361,405	2,150,321
Other receivables, deposits and investments			3,017,773	2,186,620
			7,119,591	6,862,392
PROPERTY ACCOUNTS, AT COST				
Land			2,037,964	1,699,769
Buildings and building fixtures			16,998,426	14,999,906
Machinery and equipment			38,203,227	29,397,299
Store fixtures, leaseholds and improvements			9,810,893	11,106,733
Construction in progress			22,047,799	2,934,755
			89,098,309	60,138,462
Less accumulated depreciation			28,338,839	24,669,500
			60,759,470	35,468,962
DEFERRED CHARGES				
Petrochemical preproduction expense			1,368,659	373,465
Other			1,400,803	676,942
			2,769,462	1,050,407
INTANGIBLES				
Excess of investments in businesses purchased over net assets acquired			7,111,482	7,647,425
Patents, licenses, trademarks, etc. (less amortization)			5,064,130	4,511,389
			12,175,612	12,158,814
			$195,982,516	$158,761,922

See accompanying notes to financial statements.

AND ITS CONSOLIDATED SUBSIDIARIES

—December 31, 1961 and 1960

LIABILITIES

	1961	1960
CURRENT LIABILITIES		
Accounts payable	**$ 20,653,733**	$ 13,086,622
Accrued wages, salaries and taxes thereon	**5,516,104**	5,199,800
Other accrued expenses	**6,737,030**	6,038,426
Current instalments of long term indebtedness	**1,227,666**	1,230,675
Estimated United States and foreign taxes on income for current and prior years	**5,545,962**	6,024,741
Total current liabilities	**39,680,495**	31,580,264
LONG TERM INDEBTEDNESS		
– less current instalments shown above		
Unsecured notes, 3⅜% to 5¾%, due in instalments 1962 to 1982	**50,725,000**	36,851,000
Real estate and other obligations	**3,455,228**	1,846,794
	54,180,228	38,697,794
DEFERRED UNITED STATES AND FOREIGN TAXES ON INCOME	**3,250,000**	950,000
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES	**1,461,325**	969,754
STOCKHOLDERS' EQUITY		
Capital stock of Rexall Drug and Chemical Company Authorized, 10,000,000 shares, par value $2.50 each Issued, 4,395,871 shares in 1961 and 4,135,960 in 1960	**10,989,678**	10,339,900
Capital in excess of par value per accompanying statement	**34,325,184**	28,740,831
Retained earnings per accompanying statement (Of the 1961 amount $7,097,762 is reserved for a 3% stock dividend of 131,745 shares payable March 9, 1962)	**52,147,680**	47,786,617
	97,462,542	86,867,348
Less cost of reacquired capital stock, 5,595 shares in 1961 and 31,563 shares in 1960	**52,074**	303,238
Total stockholders' equity	**97,410,468**	86,564,110
	$195,982,516	$158,761,922

NOTES TO FINANCIAL STATEMENTS

BASIS OF CONSOLIDATION: All wholly owned domestic and foreign subsidiaries and two majority owned domestic subsidiaries are consolidated. The minority interest in ownership of the latter companies is shown separately in the statement of financial position. The minority interest in income is not significant. Accounts of foreign subsidiaries are translated into U.S. dollar equivalents, as follows: (a) property accounts at approximate exchange rates current at time of acquisition as adjusted for significant exchange devaluations, and (b) all other assets and liabilities at quoted yearend exchange rates. Net current assets in foreign countries were $8,054,745 and all other foreign assets amounted to $15,789,112 at December 31, 1961.

During 1961 the Company issued 98,920 shares of capital stock for the net assets of White Metal Manufacturing Company. This transaction has been reflected as a pooling of interests, and accordingly the accompanying financial statements include the accounts of White Metal Manufacturing Company for the entire year of 1961. The 1960 consolidated accounts have not been restated to include White Metal; such a restatement would not have had a material effect on 1960 earnings.

In 1960 and 1961 Rexall sold a minority interest in the stock of a wholly owned subsidiary to El Paso Natural Gas Products Company, a subsidiary of El Paso Natural Gas Company, and has granted options, including an option granted in 1962, for the sale of additional shares over a three year period ending December 31, 1964 at which time El Paso will own a 50% interest if all options are exercised.

JOINT OPERATING AGREEMENT: In 1960 Rexall entered into a joint operating agreement with El Paso Natural Gas Products Company for the future production and marketing of olefins, polyolefins and other chemicals. The agreement provides that Rexall and El Paso shall each own an undivided one-half interest in the land, buildings, improvements, fixtures, machinery, equipment, materials and personal property used in connection with the chemical plants to be constructed.

Rexall's share of the total cost of the ethylene and conventional polyethylene facilities at the end of 1961 is $19,083,463. It is anticipated that additional plants to produce propylene, linear polyethylene and polypropylene will be constructed in 1963 and 1964. To finance most of its share of the estimated cost of all joint operating facilities contemplated under the El Paso contract, Rexall entered into loan agreements with a group of major insurance companies in 1960 for an aggregate issue of $35,000,000 in unsecured notes due in 1982. Under these financing agreements Rexall has borrowed $25,000,000 and will borrow the balance in late 1962.

Preproduction expenses applicable to these joint operations have been deferred and will be amortized over a five year period starting with commencement of commercial operation of the plant.

TAXES ON INCOME: Claims for refund of United States taxes were filed in 1953 based upon the contention that the excess profits tax credits should be increased for the years 1940 to 1945, inclusive. In connection with such claims, waivers have been executed and are still outstanding as to certain such years. While final action has not yet been taken on the claims, the Treasury Department has made protective assessments of additional income taxes for 1942, 1943 and 1944 based principally upon substantial reductions claimed in the amount of income subject to excess profits taxes in those years. If the proposed adjustments giving rise to the protective assessments are approved, the reduction in excess profits taxes will substantially exceed the related income tax assessed, whereas disapproval of the proposed adjustments would substantially eliminate the basis for the additional income tax assessments. No amounts have been included in the financial statements with respect to these claims or the protective assessments.

Depreciation deductions for certain properties are for income tax purposes determined by the use of accelerated methods which permit deductions in excess of those provided in the accounts. Further, certain deferred costs and expenses are deducted as incurred for income tax purposes. The related tax benefits are deferred in the accompanying statements and will be utilized in subsequent years when the related book depreciation and amortization exceed allowable income tax deductions.

STOCK OPTIONS: Pursuant to a stock option plan as amended and approved by the shareholders and under other agreements, a total of 486,699 shares of capital stock of the Company were reserved for purchase by officers and employees under options granted or to be granted. The option price is the market price of the stock on the date options are granted. The options are not assignable and are generally exercisable cumulatively in ratable amounts over a period of ten years. The number of shares in all outstanding options are increased ratably with no change in the aggregate dollar amounts upon payment of stock dividends. Options for 18,256 shares were exercised prior to 1961. A summary of changes during 1961 is set forth below:

	Options Granted		*Options Exercisable*	
	Shares	*Amount*	*Shares*	*Amount*
Balance at beginning of year	328,856	$ 9,898,947	29,998	$ 535,654
Adjustment for stock dividend paid	10,073	–	876	–
Options which were granted or became exercisable	62,049	2,790,959	54,771	1,324,242
Options exercised	(50,919)	(726,633)	(50,919)	(726,633)
Options cancelled	(36,985)	(1,299,516)	(1,062)	(43,310)
Balance at end of year	313,074	$10,663,757	33,664	$1,089,953

At December 31, 1961 there were 124,750 shares for which options could be granted. In January 1962 options for 20,500 shares for an aggregate amount of $963,500 were granted.

EARNINGS AVAILABLE FOR DIVIDENDS: Under agreements covering long term indebtedness $10,900,000 of the $52,147,680 of retained earnings at December 31, 1961 is not restricted as to payment of cash dividends. The agreements impose no restriction on the payment of stock dividends.

LEASE LIABILITIES: At December 31, 1961 the Company and its consolidated subsidiaries were committed under some 307 leases of real property expiring more than three years after that date with minimum annual rentals of approximately $5,760,000. Approximately three percent of this amount relates to leases expiring more than 25 years after December 31, 1961.

In addition, subsidiary companies have leased (most with options to purchase) store fixtures for periods ranging from six and a half years to ten years, in most cases at aggregate basic rentals which over the lease periods approximate the cost of the fixtures plus carrying charges. The present total annual rental payable is approximately $1,495,000.

Rentals for automobiles leased for periods extending beyond December 31, 1964 amounted to $930,000 per year at December 31, 1961.

Rexall